One time settlement scheme for SSI sector

1140. SHRI SANTOSH BAGRODIA:
SHRI KALRAJ MISHRA:

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India had issued guidelines to the banks for the debt restructuring and one time settlement schemes for SSI units, as envisaged in the policy package for the Small Scale Industries sector announced in August, 2005;

(b) if so, the details thereof;

(c) the details of SSI units covered under these schemes since the pronouncement of the policy package, year-wise; and

(d) the details of the amount recovered and money lost by the banks?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) and (b) Yes, Sir. RBI had issued guidelines to the banks for one time settlement (OTS) scheme and the debt restructuring for Small and Medium Enterprises (SME), as envisaged in the policy package, *vide* their circulars dated 3rd September, 2005 and 8th September, 2005 respectively and given in the Statement-I and II (*See* below).

(c) and (d) RBI has informed that the OTS scheme was closed on 30.06.2006. The number of accounts approved for settlements under the OTS as on 30th June, 2006 was 8692 with an amount of Rs. 607.82 crore. The progress under the restructuring of SME accounts as in September, 2007 was 1,046 accounts for an amount of Rs. 399.14 crore. Data on the sacrifice made by banks on implementing the OTS scheme and the debt restructuring is not maintained by the Government.

Statement-I

RESERVE BANK OF INDIA

Guidelines on One-Time Settlement Scheme for SME Accounts

RBI/2005-06/153

RPCD. PLNFS. BC. No. 39/06.02.31/2005-06

September 3, 2005

The Chairman/Managing Director All Public Sector Banks

Dear Sir,

Guidelines on One-Time Settlement Scheme for SME Accounts

Please refer to Paragraph No. 8 of our circular **RPCD.PLNFS.BC. No. 31/06.02.31/ 2005-06 dated August 19, 2005** and accordingly, a one-time settlement scheme for recovery of NPAs below Rs. 10 crore is proposed hereunder which is required to be implemented by all public sector banks. These guidelines will provide a simplified, non-discretionary and non-discriminatory mechanism for one-time settlement of chronic NPAs in the SME sector. All public sector banks shall uniformly implement these guidelines.

2. The guidelines will not, however, cover cases of wilful default, fraud and malfeasance, Banks shall identify cases of wilful default, fraud and malfeasance and initiate prompt action. Accordingly, guidelines for one-time settlement of dues relating to NPAs of public sector bank in SME sector are given below:

(A) Guidelines for one-time settlement of chronic NPAs up to Rs. 10 crore

[i] Coverage

(a) The revised guidelines will cover all NPAs in SME sector which have become doubtful or loss as on March 31, 2004 with outstanding balance of Rs. 10 crore and below on the date on which the account was classified as doubtful.

(b) The guidelines will also cover NPAs classified as sub-standard as on 31st March 2004, which have subsequently become doubtful or loss where the outstanding balance was Rs. 10 crore and below on the date on which the account was classified as doubtful.

(c) These guidelines will cover cases on which the banks have initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR.

(d) Cases of wilful default, fraud and malfeasance will not be covered.

(e) The last date for receipt of applications from borrowers will be as at the close of business on March 31, 2006. The processing under the revised guidelines shall be completed by June 30, 2006.

[ii] Settlement Formula — amount

(a) NPAs classified as Doubtful or Loss as on March 31, 2004

The minimum amount that shall be recovered under the revised guidelines in respect of one-time settlement of NPAs classified as doubtful or loss as on March 31, 2004 will be 100% of the outstanding balance in the account as on the date on which the account was categorised as doubtful NPAs.

(b) NPAs classified as sub-standard as on March 31, 2004 which became doubtful or loss subsequently

The minimum amount that shall be recovered in respect of NPAs classified as sub-standard as on March 31, 2004 which became doubtful or loss subsequently would be 100% of the outstanding balance in the account as on the date on which the account was categorised as doubtful NPAs, plus interest at existing Prime Lending Rate from April 1, 2004 till the date of final payment.

[iii] Payment

The amount of settlement arrived at in both the above cases, shall preferably be paid in one lump sum. In cases where the borrowers are unable to pay the entire amount in one lump sum, at least 25% of the amount of settlement shall be paid upfront and the balance amount of 75% should be recovered in instalments within a period of one year together with interest at the existing Prime Lending Rate from the date of settlement up to the date of final payment.

[iv] Sanctioning Authority

The decision on the one-time settlement and consequent sanction of waiver or remission or write-off shall be taken by the competent authority under the delegated powers.

[v] Non-discretionary treatment

Banks shall follow the above guidelines for one-time settlement of all NPAs covered under the scheme without discrimination and a monthly report on the progress and details of settlements should be submitted by the concerned authority to the next higher authority and their Central Office. Banks may go for wide publicity and also give notice by January 31, 2006 to the eligible defaulting borrowers to avail of the opportunity for one-time settlement of their outstanding dues in terms of these guidelines. Adequate publicity to these guidelines through various means must be ensured.

[vi] Reporting to the Board

Banks shall sbumit a report on the progress in the one-time settlement of chronic NPAs under the revised guidelines every quarter to the Board of Directors. A copy of the quarterly progress report may also be sent to us.

3. The above guidelines may please be advised to your controlling offices and branches for immediate implementation. These guidelines may be displayed on the web site of your bank.

4. Any deviation from the above settlement guidelines for any borrower shall be made only by the Board of Directors.

5. Please acknowledge receipt.

Yours faithfully,

(G SRINIVASAN)

Chief General Manager

Statement-II

RESERVE BANK OF INIDA

Date: Sep. 08, 2005

DEBT RESTRUCTURING MECHANISM FOR SMEs

RBI/2005-06/159
DBOD. BP. BC No. 34/21.04.132/2005-06

September 08, 2005

The Chairman/Managing Director
All Commercial Banks

Dear Sir,

Debt restructuring mechanism for Small and Medium Enterprises (SMEs)- Announcement made by Union Finance Minister

As part of announcement made by the Hon'ble Finance Minister for improving flow of

credit to small and medium enterprises, a debt restructuring mechanism for units in SME sector is required to be implemented by all banks. These detailed guidelines are being issued to ensure restructuring of debt of all eligible small and medium enterprises at terms which are, at least, as favourable as the Corporate Debt Restructuring mechanism in the banking sector.

2. Definition of SMEs

SMEs will be as defined in RPCD Circular No. RPCD. PLFNS. BC. 31/06.02.31/2005-06 dated August 19, 2005, which is reproduced below:

> "At present, a small scale industrial unit is an undertaking in which investment in plant and machinery, does not exceed Rs. 1 crore, except in respect of certain specified items under hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods, where this investment limit has been enhanced to Rs. 5 crore. A comprehensive legislation which would enable the paradigm shift from small scale industry to small and medium enterprises is under consideration of Parliament. Pending enactment of the above legislation, current SSI/tiny industries definition may continue Units with investment in plant and machinery in excess of SSI limit and up to Rs 10 crore may be treated as medium Enterprises (ME)."

3. Eligibility criteria

(i) These guidelines would be applicable to the following entities, which are viable or potentially viable:

a. All non-corporate SMEs irrespective of the level of dues to banks.

b. All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.

c. All corporate SMEs, which have funded and non-funded outstanding up to Rs. 10 crore under multiple/consortium banking arrangement (for outstanding of Rs. 10 crore and above, guidelines are being issued separately).

(ii) Accounts involving wilful default, fraud and malfeasance will not be eligible for restructuring under these guidelines.

(iii) Accounts classified by banks as "Loss Assets" will not be eligible for restructuring.

(iv) In respect of BIFR cases banks should ensure completion of all formalities in seeking approval from BIFR before implementing the package.

4. Viability criteria

Banks may decide on the acceptable viability benchmark, consistent with the unit becoming viable in 7 years and the repayment period for restructured debt not exceeding 10 years.

5. Prudential Norms for restructured accounts

(i) Treatment of 'standard' accounts subjected to restructuring

(a) A rescheduling of the instalments of principal alone, would not cause a standard asset to be classified in the sub-standard category, provided the borrower's outstanding is

fully covered by tangible security. **However, the condition of tangible security may not be made applicable in cases where the outstanding is up to Rs. 5 lakh, since the collateral requirement for loans up to Rs. 5 lakh has been dispensed with for SSI/tiny sector.**

(b) A rescheduling of interest element would not cause an asset to be downgraded to substandard category subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

(c) In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved.

(ii) Treatment of 'sub-standard'/'doubtful' accounts subject to restructuring

(a) A rescheduling of the instalments of principal alone, would render a 'sub-standard,/ 'doubtful' asset eligible to continue in the 'sub-standard'/'doubtful' category for the specified period (as defined in paragraph 7 below), provided the borrower's outstanding is fully covered by tangible security, **However, the condition of tangible security may not be made applicable in cases where the outstanding is up to Rs. 5 lakh, since the collateral requirement for loans up to Rs. 5 lakh has been dispensed with for SSI/tiny sector.**

(b) A rescheduling of interest element would render a sub-standard/'doubtful' asset eligible to be continued to be classified in sub-standard/'doubtful' category for the specified period subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

(c) Even in cases where the sacrifice is by way of write off of the past interest dues, the asset should continue to be treated as sub-standard/'doubtful'.

(iii) Treatment of Provision

(a) Provision made towards interest sacrifice should be created by debit to Profit & Loss account and held in a distinct account. For this purpose, the future interest due as per current BPLR in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate term premium and credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.

(b) Sacrifice may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower Consequently, banks may provide for the shortfall in provision of reverse the amount of excess provision held in the distinct account.

(c) The amount of provision made for NPA, may be reversed when the account is re-classifed as a 'standard asset'.

6. Additional finance

Additional finance, if any, may be treated as 'standard asset' in all accounts, viz., standard,

sub-standard, and doubtful accounts, up to a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the approved restructuring package. If the restructured asset does not qualify for upgradation at the end of the above period additional finance shall be placed in the same asset classification category as the restructured debt.

7. Upgradation of restructured accounts

The sub-standard/doubtful accounts at para 5 (ii) (a) & (b) above, which have been subjected to restructuring, whether in respect of principal instalment of interest, by whatever modality, would be eligible to be upgraded to the standard category after the specified period, i.e. a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms, subject to satisfactory performance during the period.

8. Asset classification status

During the specified one-year period, the asset classification status of rescheduled accounts will not deteriorate if satisfactory performance of the account is demonstrated during the period. In case, however, the satisfactory performance during the one year period is not evidenced the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule. The asset classification would be bank-specific based on record of recovery of each bank, as per the existing prudential norms applicable to banks.

9. Repeated restructuring

The special dispensation for asset classification as available in terms of paragraphs 5,6 and 7 above, shall be available only when the account is restructured for the first time.

10. Procedure

(i) Based on these guidelines, banks may formulate, with the approval of their Board of Directors, a debt restructuring scheme or SMEs. While framing the scheme, banks may ensure that the scheme is simple to comprehend and will, **at the minimum,** include parameters indicated in these guidelines.

(ii) The restructuring would follow a receipt of a request to that effect from the borrowing units.

(iii) In case of eligible SMEs which are under consortium/multiple banking arrangements, the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.

11. Time frame

Banks should work out the restructuring package and implement the same within a maximum period of 60 days from date of receipt of requests.

12. Review

Banks may review the progress in rehabilitation and restructuring of SM accounts on quarterly basis and keep the Board informed.

13. Disclosure

The Debt Restructuring Scheme for SMEs should be displayed on the bank's website and also forwarded to SIDBI for placing on their website.

Banks should also disclose in their published annual Balance Sheets, under 'Notes on Accounts', the following information in respect of restructuring undertaken during the year for SME accounts:

a. Total amount of assets of SMEs subjected to restructuring.

[(a)=(b)+(c)+(d)]

b. The amount of standard assets of SMEs subjected to restructuring.

c. The amount of sub-standard assets of SMEs subjected to restructuring.

d. The amount of doubtful assets of SMEs subjected to restructuring.

14. Please acknowledge receipt.

Yours faithfully,

sd/-

(ANAND SINHA)

Chief General Manager-in-Charge

World Bank aid for rural co-operative credit system

1141. MS. PRAMILA BOHIDAR:
SHRI B.J. PANDA:

Will the Minister of FINANCE be pleased to state:

(a) whether the World Bank propose to give an aid of 944 million to India for strengthening its rural co-operative credit system, vocational training programmes, and community-based water management projects;

(b) if so, the details thereof;

(c) how far this would help to rejuvenate the rural economy; and

(d) what are the details of projects that would be taken up in Orissa under this aid?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) to (d) Information is being collected and will be laid on the Table of the House to the extent available.

Inflation rate

1142. SHRI VIJAYKUMAR RUPANI:
SHRIMATI HEMA MALINI:

Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the rate of inflation does not reflect the price rise in commodities of day-to-day use of the people;